

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMDONI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umdoni Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umdoni Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular Expenditure

8. As disclosed in note 37.3 to the financial statements, irregular expenditure amounting to R28,72 million was incurred mainly as a result of contracts awarded to suppliers, which was in contravention of the Supply Chain Management (SCM) Regulations.

Unauthorised expenditure

9. As disclosed in note 37.1 to the financial statements, unauthorised expenditure of R9,39 million was incurred as a result of expenditure exceeding the approved budget for operating expenditure.

Significant uncertainty

10. With reference to note 34 to the financial statements, the municipality is currently involved in a legal dispute with a service provider for alleged outstanding payments. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.
11. With reference to note 34 to the financial statements, employees of the municipality have not been paid according to the wage scales and rates in the South African Local Government Association (SALGA) Categorisation and job evaluation wage curves collective agreement. The municipality has not finalised job evaluations pending the outcome of the lawsuit by the union disputing the agreement. The amount of the obligation cannot be determined with sufficient reliability and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the Umdoni Municipality at, and for the year ended, 30 June 2012.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual

performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*. (FMPPI)

18. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. The material findings are as follows:

Usefulness of annual performance report

20. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the usefulness of the annual performance report.

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

21. Section 46 of the Municipal Systems Act (Act No. 32 of 2000)(MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 46% of measures taken to improve performance as disclosed in the annual performance report for the selected programmes. There has been insufficient training provided to the relevant heads of departments to ensure that they understand the requirements of the annual report. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity and accuracy of the measures taken to improve performance.

Measurability

Performance targets not measurable

22. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total 34% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance Indicator not verifiable

23. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 28% of the indicators/measures were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability

24. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

25. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to service delivery and spatial and rationale development.

This was due to limitations placed on the scope of my work due to the absence of information systems and the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the above mentioned programmes.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

27. The performance management system of the municipality was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan, as required by section 38(a) of the MSA.
28. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).

Annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of irregular expenditure, contingent liabilities, investment property, provision for debt impairment and capital commitments identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

30. Awards were made to service providers who are persons in the service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of MFMA 112 (j) of the MFMA and SCM regulation 44. A similar award was identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
31. The allocation and calculation of preference points was not correctly done in accordance with the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and Preferential Procurement Regulations and the non-compliance resulted in the bid being awarded to the incorrect supplier.
32. Construction projects were not registered in the register of construction contracts with the Construction Industry Development Board (CIDB) in contravention of section 22(3) of the Construction Industry Development Board Act and CIDB regulation 18(1A)(1).
33. Goods and services with a transaction value of more than R200 000 or long-term contracts were not procured through a competitive bidding process in contravention of SCM Regulation 12(1) (b) and (c).

34. Goods and services with a transaction value of more than R200 000 were procured in contravention of section 29(2) of the SCM Regulations; whereby the bid adjudication committee must consist of at least 4 senior managers of the municipality, including at least one senior SCM practitioner who is an official of the municipality.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

Internal control

36. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

37. The accounting officer did not adequately exercise oversight responsibility over the compliance with laws and regulations relating to the review of annual financial statements procurement and contract management and reported performance information

Financial and performance management

38. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial, performance and compliance reporting. In this regard, the accounting officer did not ensure that regular, accurate and complete financial and performance reports were prepared and supported by reliable information. This resulted in material corrections in the financial statements.
39. Inadequate monthly monitoring and reconciling of transactions, balances and reports were noted in respect of SCM and reporting on predetermined objectives.

Auditor-General

Pietermaritzburg

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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